

VZCZCXRO0733
OO RUEHCHI RUEHDT RUEHHM RUEHNH
DE RUEHGO #0746/01 2270935
ZNY CCCCC ZZH
O 150935Z AUG 07
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6350
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1479
RUEHBY/AMEMBASSY CANBERRA 0427
RUEHKA/AMEMBASSY DHAKA 4578
RUEHLO/AMEMBASSY LONDON 1973
RUEHNE/AMEMBASSY NEW DELHI 3966
RUEHUL/AMEMBASSY SEOUL 7521
RUEHTC/AMEMBASSY THE HAGUE 0637
RUEHKO/AMEMBASSY TOKYO 5075
RUEHCN/AMCONSUL CHENGDU 1164
RUEHCHI/AMCONSUL CHIANG MAI 1033
RUEHCI/AMCONSUL KOLKATA 0027
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3224
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0870
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000746

SIPDIS

SIPDIS

STATE FOR EAP/MLS
STATE FOR INR/EAP
OES FOR JMIOTKE AND ACOVINGTON
EAP FOR JYAMAMOTO
EEB FOR TSAEGER
PACOM FOR FPA
TREASURY FOR OSIA/SCHUN

E.O. 12958: DECL: 08/15/2017
TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [BM](#)
SUBJECT: DAEWOO NEGOTIATING WITH CHINA FOR SHWE GAS

REF: A. A) RANGOON 706

[1](#)B. B) RANGOON 600
[1](#)C. C) RANGOON 313

RANGOON 00000746 001.2 OF 002

Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4
(b) and (d)

[1](#)1. (C) Summary. The GOB continues to pressure Daewoo International Corp., the Korean-based company that holds a 25-year concession to develop and produce Shwe gas, to sell the gas to the Chinese. Daewoo has two options - to either sell gas to China or liquid natural gas (LNG) to Korea. The company already has a tacit agreement to sell LNG to Korea, but if the Chinese are willing to match the Koreans' terms and price, Daewoo will sell Shwe gas to China. Daewoo continues to negotiate with the Chinese and expects to make a decision by the end of 2007. End Summary.

Shwe Gas to the Highest Bidder

[1](#)2. (C) In an August 7 meeting with Econoff, Su-Yeong Yang, Executive Vice President and Managing Director of Daewoo International-Myanmar, confirmed that despite press reports about the sale of Shwe gas to China (Ref B), Daewoo has not yet decided to whom it will sell the gas. The Burmese government, Yang noted, continues to pressure Daewoo to make a deal with the Chinese, but recognizes that the final decision, per the 25-year concession agreement, is up to

Daewoo.

13. (C) Daewoo Corp. is deciding between two options: to either sell the gas to China or to export liquefied natural gas (LNG) to Korea Gas Corporation, which is currently the highest bidder. Although the company has a tacit agreement with Korea Gas Corporation, Daewoo, to appease the Burmese government, is negotiating with the Chinese. Although the GOB cannot force Daewoo to sell Shwe Gas to China, Yang underscored, if China meets the price and terms set by Korea Gas Corporation, Daewoo will sell Shwe gas to China. But, he continued, the Burmese government understands that if China fails to match the price, Daewoo will commence with plans to sell the gas in LNG form to Korea. Daewoo has not set a timeframe for the end of negotiations, but Yang expects that a contract will be signed by the end of the year.

Plans for LNG

14. (C) When asked about the viability of an LNG plant (Ref A), Yang clarified that Daewoo, which has enough reserves from its blocks in the Shwe field to service an LNG plant, has already completed a feasibility study for the construction of one LNG frame. Daewoo recently obtained deep-water block AD-7, which is adjacent to the Shwe gas fields, and will begin drilling in early 2008. The company, he noted, is confident that it will find additional reserves to further justify an LNG plant. If Daewoo decides to sell the gas to China, however, the company will delay plans for an LNG plant until after it uncovers and begins production of new gas fields.

16. (C) Despite its success in developing the Shwe gas fields, Daewoo is not interested in bidding on the seven deep water blocks available in the Bay of Bengal. Yang noted that

RANGOON 00000746 002.2 OF 002

because the GOB has no seismic data for these blocks, companies "would be bidding blind on a block that may have no gas reserves. Only after costly exploration would a company know whether reserves exist. Foreign companies are currently unwilling to take the chance." Yang confirmed that the GOB, which is in no rush to close the bidding process for these blocks, is waiting for the time when U.S. companies can, without restriction, invest in Burma's oil and gas sector (Ref A). Although Yang recognizes that a change in administration will not mean the immediate lifting of sanctions, the government, he noted, is "quite optimistic."

Burma's Onshore Drilling: Lacking Technology to Get the Job Done

17. (C) While foreign companies are successfully finding new gas fields offshore, the Burmese continue to struggle with their onshore oil field operations. Burmese companies combined only produce 10,000 barrels of oil a day, which is not enough to meet domestic demand. In 2006, Burma imported 89 percent of crude oil used. Yang noted that state-owned Myanma Oil and Gas Enterprise (MOGE) has depleted shallow oil reserves and must drill deeper to reach the oil reserves below. However, deep formation drilling, which requires drilling through a high pressure joint, is dangerous and the MOGE lacks the technology, equipment, and wherewithal to conduct such operations. The GOB, which limits the rights of foreign companies to drill onshore, in recent years granted exceptions to several Chinese and Russian companies in the hope that they would be able to expand onshore production. Yang noted that these efforts have largely failed, as the Chinese and Russians place more emphasis on developing their offshore blocks.

Comment

18. (C) The Burmese continue to use natural resources as a way to maintain Chinese support for the regime. The Chinese, in turn, expect the Burmese to sell these natural resources at a low price. If Daewoo and the Chinese fail to reach an agreement, the Burmese government may find itself in an awkward position - unable to follow through on its promises to the Chinese and unable to legally force Daewoo into an agreement it does not want. Despite Yang's belief that the GOB will not force Daewoo into business with the Chinese doubt they will make it easy for Daewoo to sell to Korea.
VILLAROSA